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MASSACHUSETTS COMMUNITY DEVELOPMENT FINANCE CORPORATION

CDFC INVESTMENT PROGRAMS

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CDFC

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CDFC INVESTMENT PROGRAMS

CDFC INVESTMENT PROGRAMS

CDFC Detailed Program Descriptions

- I. Venture Capital Investment Program
- II. Community Development Program
- III. Small Loan Guarantee Program

I.
Venture Capital
Investment Program

MASSACHUSETTS COMMUNITY DEVELOPMENT FINANCE CORPORATION
VENTURE CAPITAL INVESTMENT PROGRAM
Policies and Procedures

I. PROGRAM DESCRIPTION

The Venture Capital Investment Program provides debt and equity financing to small businesses sponsored by Community Development Corporations (CDCs). The preferred investment range is \$75,000 to \$300,000 with CDFC providing up to one-third of the total financing required. Interest rates are fixed for the term of the loan. In most venture deals, CDFC's equity position in the company is shared with the participating CDC. CDFC normally expects to structure re-purchase agreements for any equity acquired. CDFC will often subordinate its loans to secure the participation of other public and private financing sources.

II. ELIGIBILITY

To be eligible for financing through the venture capital investment program, a venture must:

- A. Have the sponsorship of an eligible CDC as defined by the statutory requirements of Chapter 40F;
- B. Be located, or willing to locate, in the CDC "target area";
- C. Provide a significant public benefit which will primarily accrue to the residents of the area served by the CDC;
- D. Be unable to obtain financing in the traditional capital markets;
- E. Demonstrate a reasonable likelihood of success.

III. VENTURE SELECTION

A. Feasibility

Once eligibility has been established analysis will focus on the feasibility of the venture, including a positive determination of the following:

- 1. That the business plan is substantially complete, makes supportable assumptions, and contains contingency plans;
- 2. That the management team is complete, experienced and committed to the company;
- 3. That analysis of the product indicates the venture has a reasonable chance of success;
- 4. That analysis of the market demonstrates the venture has a reasonable chance of achieving profitable market penetration;
- 5. That analysis of the industry supports the prospects for the long-term viability of the venture;
- 6. That analysis of the venture's operating history and projections supports the likelihood of the company achieving a positive cash flow within a reasonable time frame;
- 7. That the use of proceeds is appropriate and reasonable to the project.

B. Public Benefit

Among the public benefits which CDFC expects to see are:

- 1. Jobs created or retained in the target area at a primary employment level of one and one-half times minimum wage with adequate and appropriate fringe benefits;
- 2. The utilization of under-used buildings in the target area;
- 3. The increase of tax revenues to localities and to the Commonwealth of Massachusetts;
- 4. The provision of job training programs and affirmative action hiring;
- 5. Diversification of the local economic base;
- 6. Other public benefits which the CDC Board of Directors deems significant and appropriate to its target area, such as CDC capacity building, development of an income stream, and increased credibility.

IV. INVESTMENT GUIDELINES

Investments under this program will be structured according to the following guidelines:

- A. Amount** — The preferred investment range for CDFC participation in a venture is \$75,000 to \$300,000.
- B. Rate** — Interest rates are set according to CDFC's base rate plus a risk factor, and are fixed for the term of the loan.
- C. Term** — CDFC expects to make loans and investments within a three (3) to seven (7) year range, with full amortization of the loan portion by the end of the period.
- D. Leverage** — CDFC seeks a 1:3 leverage ratio of its investment dollars to other public and private dollars.
- E. Use of Funds** — CDFC will normally approve the funding of working capital requirements resulting from sales-driven inventory and receivables growth; also marketing expenses, business expansion and the costs of leveraged buy-outs. CDFC will not usually consider financing debt consolidation, real estate acquisition, research & development costs, payment of accrued taxes, or fixed asset purchases where other financing sources are more appropriate.
- F. Forms of Financing** — CDFC anticipates that the majority of investments under this program will be a combination of debt financing and equity participation. In most venture deals, CDFC's equity position in the company is shared with the participating CDC.

Valuation of the CDFC and CDC equity position will be based on consideration of the following: the amount of other equity in the company, net present value of the projected income stream, the probability of a private placement or public offering, and the growth potential of the company.

CDFC will normally consider such forms of equity as common stock, preferred stock, and warrants, usually detachable. "Put" and "Call" provisions will be structured on any equity feature.

- G. Deal Structure** — It is expected that the venture will propose a capital structure and a debt structure to CDFC. In determining the appropriate debt and equity combination, CDFC will consider the following factors:
 - the adequacy of the proposed capital structure;
 - the amount of collateral available to lenders and other investors;
 - the equity contribution of the principals or others;
 - the standard industry norms of capital structure and debt to equity ratios;
 - the stage of development of the company and maturity of the industry;
 - the lending or investment format of other lenders or investors;
 - the leverage with other public and private lenders provided by CDFC's investment;
 - the exits available for CDFC and CDC equity.

V. TERMS AND CONDITIONS

Standard investment agreement provisions will include:

- Statement of Public Purpose and adherence to public purpose goals;
- Normal representations and warranties concerning the company;
- Financial covenants of the company including limitations on future indebtedness;
- Negative covenants covering certain major transactions such as consolidation, dissolution, reorganization or relocation;
- A lien on assets whether CDFC is in a subordinated position or not;
- Stock pledge of the principals where appropriate;
- Key Man Life Insurance covering the CDFC investment;
- Required reporting, including monthly financial statements and annual audited financials;
- A Board seat for CDFC and representation on the Board by the CDC;
- Normal closing costs, including legal fees, will be paid by the borrower;
- Prepayment penalties are generally not requested as long as the equity is redeemed at the time of prepayment;
- Subordination of personal loans to the company;
- Limitations on total compensation to principals.

VI. CDC COMPENSATION — FORMS AND SOURCES

CDCs can expect to be compensated for their participation in ventures by several means and from several sources:

- A.** CDC equity participation may be through direct ownership of equity securities or through rights to a percentage of capital gains realized upon redemption of CDFC equity;
- B.** A packaging fee may be charged to the company;
- C.** A monitoring fee may be charged to CDFC, and will be paid by CDFC upon the completion of such monitoring services as required by the CDC;
 - 1. Monitoring fees will be based upon a percentage of the interest income earned on CDFC's loan to the venture.
 - 2. Payment of the CDC monitoring fee is contingent upon the venture's being current on its loan payments to CDFC.
 - 3. Payments to the CDC will be pro rata with the level of the loan payments.
- D.** Employee screening fees may be charged by the CDC and are payable by the company.

VII. APPLICATION AND REVIEW PROCESS

The process for review and decision of investment proposals is as follows:

A. Initial Project Review

- A preliminary application may be submitted to CDFC in order to provide both the applicant and the CDC with feedback around the eligibility and appropriateness of the proposal.
- CDFC Staff Review — Upon receipt of the pre-application or a complete business plan, CDFC will review the proposal for eligibility, completeness, appropriateness and feasibility. CDFC will contact the CDC to communicate the results of the initial review.

B. Detailed Proposal Analysis

At such time as a pre-application is accepted and a full proposal requested, applicants will be requested to submit more detailed information following the outline of the Application Form. A complete application will include:

- CDC Application Form & Summary
- Business Plan

To complete the detailed analysis, CDFC must receive both historical and projected financial statements, a marketing and sales strategy, a description of management and operations, and a proposed financing structure which supports the viability of the venture.

C. CDFC Staff Recommendation

Upon submission of all requested and supplementary documentation and completion of the detailed analysis, CDFC staff will recommend approval or denial of the proposal. Where a proposal is recommended for approval, CDFC staff will suggest an appropriate investment structure and negotiate with the CDC and the venture to establish terms and conditions and CDC compensation.

D. CDFC Board Review

All proposals must be reviewed by the Investment Committee of the Board prior to the regularly scheduled monthly Board meeting. If the Committee concurs with the recommendation of staff, the proposal will be acted upon by the full Board. The staff recommendation of a proposal must reach the Board at least one week prior to its meeting in order to be considered at that month's Board meeting.

E. Investment Closing

Applicants will be notified of the decision of the Board of Directors following the meeting at which the proposal is considered. CDFC will issue a letter of commitment which details the terms and conditions of the investment as voted by the Board of Directors. Normally, commitments will be valid for a 60-day period. Upon acceptance of these terms and conditions, staff will instruct legal counsel to proceed with the preparation of closing documents. Ventures are expected to cover the legal costs incurred by CDFC in closing the investment. A closing date will be set when the documents are finalized and other lenders/investors are firmly committed. CDFC expects to close simultaneously with other lenders. Generally, some portion of the CDFC financing will be advanced at the closing. The balance of CDFC funds will be drawn down according to a pre-determined schedule based on performance (i.e., sales volume, gross margins, profitability, cash flows, etc.).

F. Reporting

All investments will be monitored by CDFC staff and the CDC. Specific reporting requirements may differ depending on the requirements of the venture, but will include monthly financial reports, annual audits, employment and wage levels of target area residents, and achievement of other anticipated public benefits.

**VENTURE CAPITAL INVESTMENT PROGRAM
APPLICATION FORM**

— to be filled out by CDC and attached to business plan —

CDC _____

Date _____

Address _____

Contact _____

Tel. _____

Discussion of Public Benefit:

I. BUSINESS

Name _____

Current Number
of Employees

Address _____

1

full-time part-time

Telephone _____

Type of Business _____

II. FINANCING REQUEST

Amount of Request (from CDC) \$ _____

Other Financing Sought:
Debt —

\$ _____

Lender

\$ _____

Lender

Equity —

\$ _____

Investor

Total Sources \$ _____

USE OF PROCEEDS

Item:

Cost:

\$ _____

TOTAL \$ _____

III. OWNERSHIP AND MANAGEMENT

Please list officers of company and all shareholders having 20% or more ownership interest:

Name

Title

% Ownership

If this business is a start-up venture, discuss the management and operations experience of the principal(s):

IV. MARKET

Please describe the market for this product in terms of size, location, and growth potential. Please discuss who the major competitors are and where they are located. How does this financing meet the business objectives of the company?

V. CREDIT

- What is the type and value of the collateral securing the loan?
- What conventional sources of credit have been approached? (banks, SBA, etc.)
- Please list the names and telephone numbers of three credit references.

1. _____
2. _____
3. _____

- Disclosure Statement —

Have the principals ever been involved in a bankruptcy proceeding?

Have they made application for, or accepted, any loans from other government agencies?

VI. FINANCIAL

- Describe the financial contribution or commitment of the principal(s).
- Describe how financial accounting will be done. (i.e. part-time bookkeeper, accounting service etc.)

Attachments:

Business Plan

date

CDC signature (with title)

II.

Community Development Program

MASSACHUSETTS COMMUNITY DEVELOPMENT FINANCE CORPORATION
COMMUNITY DEVELOPMENT PROGRAM
Policies and Procedures

In an effort to participate more fully in the broad range of development projects undertaken by Massachusetts Community Development Corporations, CDFC has established the "Community Development Program" to offer flexible, short to medium term financing to CDC sponsored real estate projects, for residential, commercial, or industrial sites.

The specific goals of the Program are as follows:

- (1) To assist CDCs in the development and construction of affordable housing units in CDC target areas;
- (2) To assist CDCs in the development and construction of industrial and commercial property for the purpose of providing jobs and goods and services to the residents of CDC target areas and otherwise contributing to the revitalization of CDC area economies;
- (3) To strengthen the organizational and financial capacity of CDCs in the development, construction and management of real estate in their target areas.

To meet these goals, CDFC may lend or otherwise invest up to 20% of the projects' costs (not to exceed \$250,000 per project) to CDCs in Massachusetts for financing for essential, project specific and recoverable development expenses or for CDC "equity" where such a need exists. It is intended that CDFC funds will be used to complement and leverage other public and private sources of construction and permanent financing, not to replace them.

The following guidelines should assist potential applicants in understanding the opportunities and limitations of the Community Development Program.

I. ELIGIBILITY CRITERIA

To be eligible for financing through the Community Development Program a project must:

- A. Have the sponsorship and active involvement of an eligible community development corporation as defined by the CDFC statute, Chap. 40F.
- B. Be located in a "target area" as defined by the CDFC statute.
- C. Offer clear public benefits which will primarily accrue to the residents of the area served by the CDC and, in general, will contribute to the redevelopment and economic well being of that area.
- D. Conform to all applicable environmental, zoning, and building regulations.
- E. Involve sufficient ongoing control by the CDC to ensure that the public benefit to the target area and public purposes are maintained.

II. PROJECT SELECTION CRITERIA

In addition to eligibility, projects will be evaluated on the basis of the following:

- A. **Project Impact** — CDFC will review the significance of the proposed project in meeting community needs and the extent to which the project is consistent with the overall development strategy for the CDC area. The CDC must identify clearly the public benefits to be achieved by the proposed project.
- B. **Degree of CDC Involvement** — CDFC will look for those projects that involve a high degree of direct participation by the applicant CDC in the development, management and ownership of the project. Those projects which will result in the strengthening of the financial and technical capacity of the CDC will be favored.
- C. **Project Feasibility** — The applicant must articulate clear and realistic project objectives and provide sufficient documentation to demonstrate:
 - (1) Market feasibility has been established and a realistic strategy has been developed for meeting that market.
 - (2) The project is financially feasible given tested assumptions as to development, construction, and operating costs.
 - (3) Other necessary factors (i.e. lenders, investors, government agencies, tenants, etc.) have been identified and have expressed interest in participating.
 - (4) There is a reasonable likelihood that all necessary permits, variances, licenses, etc. may be obtained.
 - (5) A management plan has been developed and a proven management agent identified.
- D. **Track Record and Demonstrable Capacity** — There must be evidence of sufficient capacity within the development team to ensure successful project management. CDFC will review the experience and skill levels of CDC staff, Board members and consultants and, in the case of a joint-venture between a CDC and a private developer, the track record and expertise brought by such partners.
- E. **Necessity and Appropriateness of CDFC Involvement** — CDFC will evaluate the extent to which CDFC participation is necessary to the success of the project. The availability of funding through more appropriate public and or private sources will be considered as well as the degree to which CDFC's purposes will be realized through the accomplishment of the project.

III. INVESTMENT GUIDELINES

Investments under this program will be structured according to the following guidelines:

- A. **Use of Funds** — CDFC will commit funds for several purposes including project-specific development or construction costs; CDC "equity" in projects; and working capital or bridge financing in anticipation of syndication proceeds. CDFC will not finance feasibility studies, acquisition prior to development plans, refinancing of an existing project, infrastructure, developer's fees or staff costs.
- B. **Timing** — CDFC will not commit funds prior to a site-specific demonstration of feasibility and not until site control is achieved unless other significant collateral can be offered and there is a reasonable expectation that the desired site will be acquired. CDFC will not close on a commitment or disburse funds until all conditions of the commitment are satisfied and closing with other participating lenders occurs or is simultaneous with the CDFC closing.
- C. **Amount** — CDFC limits its participation in a project to 20% of total project costs or \$250,000, whichever is less. While there are no minimum financing levels, applicants should consider the cost-effectiveness of CDFC involvement in very small financings.
- D. **Forms of Financing to be Provided** — CDFC anticipates that the majority of investments under this Program will take the form of a loan to the CDC or the partnership. Where necessary and feasible, CDFC will consider direct equity investments. However, such participation will be based on the demonstration of significant public benefits, the potential for recapture and appreciation of such equity investments, an exit vehicle for the equity investment, the estimated term of the investment and other factors.
- E. **Rate** — Interest rates will vary with the need, term and risk of the investment. In setting the interest rate for an investment, CDFC will consider the targeted nature of the project, public benefits, and costs of other capital being provided to the project. CDFC will seek a minimum return on investment of 8%.
- F. **Term** — The term of an investment will be less than ten years with the average term expected to be between three and seven years. Adequate sources of take-out financing must be identified prior to CDFC commitment of funds.
- G. **Security** — Appropriate collateral will be required for CDFC investments including assets of the project, the CDC and other major partners or owners. CDFC will subordinate its collateral position to other primary lenders where necessary.

IV. PROPOSAL REVIEW PROCESS

All project proposals under the Community Development Program will be the overall responsibility of an Investment Officer. The process for review and decision of project proposals is as follows:

A. Initial Project Review

- (1) Submission of preliminary application — All applicants must complete a preliminary application form in order to formally begin the review process. However, CDFC does encourage informal communication between applicants and CDFC staff before submission of an application if there are major questions on threshold eligibility or appropriateness.
- (2) CDFC Staff Review — Upon receipt, CDFC will review new applications for completeness, eligibility, appropriateness and preliminary feasibility. CDFC staff will contact the applicant to communicate the results of the initial review and to schedule an informational meeting to clarify the status of the proposal.

B. Detailed Proposal Analysis

After the initial review, appropriate proposals will be requested to submit more detailed information following the outline of the Application for Financing. It is anticipated that projects in the early stages of planning will go through a number of steps before arriving at the final costs, structure and development plan. To complete the detailed analysis, CDFC must receive copies of final budgets, plans and supplementary documentation.

C. CDFC Staff Recommendation

Upon submission of all supplementary documentation and completion of the detailed analysis, CDFC staff will suggest an appropriate investment structure and will submit the proposed terms and conditions of the financing package to the CDFC Board for consideration.

D. CDFC Board Review

All CDFC investments must receive the approval of the Board of Directors. All proposals also must be reviewed by the Investment Committee of the Board prior to the regularly scheduled monthly Board meeting. The staff recommendation of a proposal must reach the Board at least two weeks before their meeting to be considered at that month's meeting. If the committee concurs with the recommendations of the staff, the proposal will be acted upon by the full Board.

V. INVESTMENT CLOSING

Applicants will be notified of the decision of the Board of Directors following the meeting at which the proposal is considered. Upon the satisfaction of the conditions of the investment, staff will assist the applicant and legal counsel in preparing the closing documents and coordinating with other lenders and investors to finalize the transaction. Projects will be expected to cover the legal costs of CDFC associated with the investment.

VI. REPORTING

All investments will be monitored by CDFC staff and all CDCs and funded developers will be required to submit periodic reports on the status of the project. Specific reporting requirements may differ depending on the nature of the project but will include financial reports and an annual audit, completion and/or operating status, employment of target area residents, and the achievement of anticipated public benefits.

MASSACHUSETTS COMMUNITY DEVELOPMENT FINANCE CORPORATION
COMMUNITY DEVELOPMENT PROGRAM

PRE-APPLICATION

Project Name: _____

Project Address: _____

Community Development Corporation: _____

Contact Person: _____ Tel. # _____

Developer: _____

Contact Person: _____ Tel. # _____

Proposed financing requested: \$ _____

Proposed use of funds: _____

Date of preapplication: _____

(Preapplication materials submitted should include those listed on the attached schedule for initial screening and review by CDFC staff. If the project is selected to submit a full application for financing, CDFC will require extensive additional information to evaluate the proposal.)

All information attached to this preapplication is true and accurate to the best of my knowledge.

Submitted by: _____

For _____
(Organization)

COMMUNITY DEVELOPMENT PROGRAM

Preapplication Materials

- I. **Project Description** — provide a brief narrative of the proposed project along with the preliminary site plan and neighborhood map with the project location.
- II. **Project Impact** — discuss how the project is consistent with the CDC's development strategy and identify the potential benefits to the CDC community and target area residents, e.g. identify the degree of targeting of project use or services to low income residents, number of construction or permanent jobs available to target area residents, etc.
- III. **CDC Involvement and Eligibility** — discuss the role of the CDC during the development of the project and on an ongoing basis after the completion. Provide copies of the CDC articles of incorporation and by-laws. Provide copies of relevant partnership agreements, etc.
- IV. **Project Feasibility** — provide the following:
 - preliminary market data and market strategy to support project
 - preliminary financial feasibility — development and operating pro formas
 - identify the development team and other relevant participants
 - conformity with local environmental, zoning and building regulations
 - preliminary development schedule and identification of tasks to complete
- V. **Track Record and Demonstrable Capacity** —
 - for the CDC — history, experience and skill level of staff, Board and technical advisors;
 - for the developer or joint venturer — relevant experience, background, references.
- VI. **Need for CDFC Involvement** — availability of other financing or funding sources, furtherance of CDFC goals by this project.

**MASSACHUSETTS COMMUNITY DEVELOPMENT FINANCE CORPORATION
COMMUNITY DEVELOPMENT PROGRAM**

APPLICATION FOR FINANCING

Project Name: _____

Project Address: _____

Community Development Corporation: _____

Contact Person: _____ Tel. #: _____

Developer: _____

Contact Person: _____ Tel. #: _____

Summary of financing requested: \$ _____

Proposed use of funds: _____

Date of application: _____

CDFC requests extensive information in order to evaluate your proposed project. The attached outline should be followed in assembling an application for financing. CDFC may request additional information as deemed necessary to evaluate your proposal.

MASSACHUSETTS COMMUNITY DEVELOPMENT FINANCE CORPORATION
COMMUNITY DEVELOPMENT PROGRAM

Application for Financing

I. Public Benefits and Role of CDC

Provide a narrative that details:

- Project Impact — degree of targeting toward low income residents, revitalization of target area, etc.
- CDC involvement and capacity
- Role of other political entities and private investment
- Jobs created, construction and permanent
- Potential for displacement
- Necessity of CDFC funds

II. Project Description

- Evidence of site control: option, contract of sale, deed, designation
- Map of neighborhood and identification of project location
- Design drawings/plans
- Development plan indicating intended long-range uses of project

III. Project Feasibility

- Market study with analysis of location and quantity of competition, demand for project and absorption rate
- Property appraisal
- Structural/engineering report of buildings
- Construction estimate, contractor's bids or construction contract
- Detailed development budget with proposed sources of financing
- Detailed operating pro forma

IV. Development Structure

- Resumes of development team with references (architect, engineer, contractor, development consultant, attorney, CDC staff, others)
- Project schedule and phases
- Legal structure with documentaton to be used (limited partnership, joint venture, condominium, cooperative, etc.)

V. Financing

Sources and amounts of:

- Equity
- Proposed construction (interim) financing
- Proposed permanent financing
- Subsidies (grants, Sec. 8 assistance payments, interest rate, guarantees, etc.)
- Syndication with schedule of contributions

VI. Operations

- Marketing — marketing agent, budget, plan, letters of interest/reservations for lease or purchase of units
- Management — management agent, budget, plan. Plan for construction management and oversight.

III.
Small Loan
Guarantee Program

MASSACHUSETTS COMMUNITY DEVELOPMENT FINANCE CORPORATION

SMALL BUSINESS LOAN GUARANTEE PROGRAM

I. PROGRAM PURPOSE

To broaden the availability of commercial credit to small businesses located in CDC target areas in order to create new jobs, increase opportunities for self-employment and encourage the growth of business enterprises offering needed goods and services to CDC communities. Specifically, this program was created to:

- Provide an additional financing tool to eligible CDCs seeking to strengthen the very small business sector in their target areas, thus increasing the capacity and the impact of such CDCs in carrying out economic development strategies.
- To extend CDFC's financing powers to those concerns requiring smaller amounts of capital (under \$50,000) through a streamlined program designed to minimize processing time and administrative costs.
- To strengthen the relationships between CDCs and CDFC and CDC-area banks through a lending partnership.
- To make bank credit available to "riskier" ventures by reducing the overall exposure of the participating banks.

II. PROGRAM DESCRIPTION

CDFC will guarantee up to 50% or \$25,000, whichever is less, of a loan made to an eligible small business by a participating financial institution, when such a guarantee is requested by an eligible CDC.

III. AN ELIGIBLE CDC

All Massachusetts Community Development Corporations which meet the statutory requirements in Chapter 40F shall be eligible for participation in the Small Business Loan Guarantee Program. In addition to meeting the organizational eligibility, CDCs must satisfy the following:

- Submit a proposal to CDFC which outlines how they intend to administer the program locally; what the nature and scope of the demand for the program is; how participation in the program is consistent with their overall development agenda and what specific criteria will be used to screen and recommend or deny applications.
- Demonstrate the organizational capacity to successfully carry out the program.
- Secure the participation of local financial institutions.

IV. AN ELIGIBLE BUSINESS

Specific business eligibility and use-of-funds criteria may be developed by participating CDCs. However, CDFC will make no guarantees of loans to businesses which do not meet the following threshold criteria:

- The business must be located in a CDC target area as defined by the CDFC legislation.
- The business must offer employment or other definable benefits to target area residents, consistent with the economic development goals of the sponsoring CDC.
- The business must be unable to obtain the necessary bank financing without assistance through this program.
- The business must conform to all application, disclosure and other requirements of the CDC, CDFC and the participating lending institution.

V. ADMINISTRATIVE PROCEDURES

- A.** CDFC Investment Staff will have responsibility for oversight of loan guarantees administered by the CDCs.
- B.** Each participating CDC will establish procedures for screening and evaluating proposals. It is suggested that this be accomplished through a loan committee format such as that adopted by the Hilltown CDC. All applications will consist of:
 - (1) Business Proposal
 - (2) Financial Statements — Business & Personal
 - (3) Source & Application of Funds
 - (4) List of collateral
 - (5) Credit references
- C.** The bank will handle its own detailed analysis and credit evaluation of each application and render a decision and terms for making its loan under the programmatic guidelines.
- D.** If bank approval is received, copies of the application and a brief write-up accompanied by the bank letter of intent should be sent to CDFC. CDFC staff will present the guarantee request directly to the CDFC Board for consideration.
- E.** If approved by the CDFC Board a letter of commitment will be sent to the CDC, Bank and Applicant.
- F.** The CDFC Staff person responsible will then execute the guarantee documents with the CDC and the Bank.
- G.** At the closing, the Bank will make the loan to the small business. Simultaneously, CDFC will make a loan to the CDC in the amount of the guarantee (up to 50% of the loan or \$25,000, whichever is less). The CDC will deposit the funds with the Bank as the cash collateral for the loan. Best efforts will be made to achieve the highest interest rate available for deposits of appropriate maturity.
- H.** As interest is paid on the CDC deposit, the CDC will pay CDFC two thirds of the amount as interest on their loan. One third of the interest will be retained by the CDC as compensation. As principal is repaid by the small business to the Bank, the amount of the guarantee will be reduced pro rata and repaid to CDFC by the CDC by withdrawal from the bank deposit.
- I.** On a monthly basis all participating CDCs will submit a Portfolio Status Report which informs CDFC as to whether or not each guarantee recipient is meeting the terms of the bank loan and whether or not there are any major business problems which might result in default.
- J.** In the case of a default by the small business, the Bank must look first to the collateral of the business to cover its loan loss. Only after all assets are liquidated may the Bank draw against the guarantee collateral to the extent of 50% of the outstanding loan loss.
- K.** If the guarantee collateral is drawn by the Bank, CDFC will look to the CDC to the amount of the interest earned by the CDC on the deposit as the only obligation under the note from the CDC to CDFC.

VI. SUMMARY OF GUARANTEE TERMS

The following terms shall apply to all guarantees.

- A.** Maximum Guaranty Maturity: Five years
- B.** Loan Interest Rates: At the discretion of the bank. (It is expected, however, that consideration will be given to the reduced risk resulting from the CDFC guarantee when interest rates are set).
- C.** Collateral: Mortgages on land, and buildings; liens on all machinery, equipment, furniture, fixtures, inventory and receivables, etc. Personal guarantees also will be required.
- D.** Default: In the event of foreclosure, after collection of proceeds from liquidation of all pledged assets, the participating financial institution will receive 50% of the uncollected principal and legal fees incurred. The CDC will be responsible to reimburse CDFC for the interest earned on the guarantee.
- E.** Funds Securing Guarantee: Deposit by the CDC with funds provided by CDFC in investment instruments from the participating financial institution in an amount equal to the amount of the guarantee. As the loan is repaid by the borrower, the CDC will reduce the amount deposited with the bank by a corresponding amount and repay to CDFC.
- F.** CDC/CDFC Guarantee Fee: None

SMALL LOAN GUARANTEE PROGRAM

APPLICATION FORM

— to be filled out by CDC —

CDC _____

Date _____

Address _____

Contact _____

Tel. _____

Discussion of Public Benefit:

BUSINESS

Name _____

Address _____

Telephone _____

Description of Business:

LOAN

Participating Bank _____
(commitment letter attached)

Amount of Loan \$ _____
(from Bank)

Guarantee Request \$ _____
(from CDFC)

Other Funds Leveraged \$ _____
(indicate source and type-debt or equity)

USE OF PROCEEDS

Item:	Cost:
_____	\$ _____
_____	_____
_____	_____

TOTAL \$ _____

BUSINESS PROPOSAL SUMMARY

— to be filled out by Business —

I. BUSINESS

Name of Business _____

Address _____

Telephone _____

Name of Principal _____

Home Address _____

Home Telephone _____

Type of Business _____

Is Business Incorporated? _____

Date Incorporated Established _____

Current Number of Employees: _____

Full-time

Part-time

II. OWNERSHIP AND MANAGEMENT

Please list officers of company and all shareholders having 20% or more ownership interest.

<u>Name</u>	<u>Title</u>	<u>% Ownership</u>
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- If the business is a start-up venture, discuss the management/operations experience of the principal(s).

III. MARKET

Please describe the market for your product in terms of size, location, and growth potential. Please discuss who your major competitors are and where they are located. How does this financing meet your business objectives?

IV. CREDIT

- What is the type and value of the collateral securing the loan?
- What conventional sources of credit have been approached? (banks, SBA, etc.)

- Please list the names and telephone numbers of three credit references.

1. _____

2. _____

3. _____

- Disclosure Statement —

Have you ever been involved in a bankruptcy proceeding?

Have you made application, or accepted, any loans from other government agencies?

V. FINANCIAL

- Describe the financial contribution or commitment of the principal(s).
- Describe how financial accounting will be done. (i.e. part-time bookkeeper, accounting service etc.)

Attachments:

Current Balance Sheet

Historical Income Statements

Projected Income Statements (2 yrs.)

Projected Cash Flow Statements (1 yr.)

Personal Financial Statements

date

company signature (with title)

